

Tyson Foods

Fourth Quarter 2025 Earnings Conference Call

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CORPORATE PARTICIPANTS

Donnie King--*President and Chief Executive Officer*

Curt Calaway--*Chief Financial Officer*

Devin Cole--*Chief Operating Officer*

Kristina Lambert--*Chief Growth Officer*

Jon Kathol--*Vice President, Investor Relations*

PRESENTATION

Operator

Good day, and welcome to the Tyson Foods Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Jon Kathol, Vice President of Investor Relations. Please go ahead.

Jon Kathol

Good morning, and welcome to Tyson Foods fourth quarter fiscal 2025 earnings conference call. On today's call, Tyson's President and Chief Executive Officer, Donnie King; Chief Financial Officer, Curt Calaway; and Chief Operating Officer, Devin Cole, will provide prepared remarks. Following the prepared remarks, we will have a Q&A session with the participants who will be joined by our Chief Growth Officer, Kristina Lambert. We have also provided a supplemental presentation, which may be referenced on today's call and is available on Tyson's Investor Relations website and via the link in our webcast.

During today's call, we will make forward-looking statements regarding our expectations for the future. These forward-looking statements made during the call are provided pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include all comments reflecting our expectations, assumptions or beliefs about future events or performance that do not relate solely to historical periods. These forward-looking statements are subject to risks, uncertainties, and assumptions, which may cause actual results to differ materially from our current projections.

Please refer to our forward-looking statement disclaimers on Slide 2 as well as our SEC filings for any additional information concerning risk factors that could cause our actual results to differ materially from our projections. We assume no obligation to update any forward-looking statements. Please note that references to earnings per share, operating income and operating margin in our remarks are on an adjusted basis for our fiscal periods, unless otherwise noted. For reconciliations of these non-GAAP measures to their corresponding GAAP measures, please refer to our earnings press release.

Now I will turn the call over to Donnie.

Donnie King

Thank you, Jon, and thanks to everyone joining us today. I'm pleased to report that our business delivered solid progress and performance this quarter and throughout the year. Looking ahead, we see even more opportunities for growth across all our business units.

This quarter, we achieved increases in sales, adjusted operating income and adjusted earnings per share, continuing our upward trajectory for the full year. Our annual growth in adjusted operating income was driven by the Chicken, Pork, and Prepared Foods segments, along with notable contributions from our international business.

In the fourth quarter, our team executed well across our portfolio with momentum in value-added protein offerings. The Chicken segment stood out, delivering 457 million in adjusted operating income, thanks to higher volumes, better operational execution, and lower feed costs. These gains were partially offset by increased marketing and promotional expenses. We believe there's still untapped potential in areas we can control within this business.

Prepared Foods saw growth in both sales and adjusted operating income. Our production facilities made significant performance improvement through disciplined operational efficiencies. Meanwhile, our innovation pipeline is evolving to better match consumer preferences and emerging trends. As a result, our Prepared Foods business is capturing more market share by volume and dollars, driven by innovation and targeted MAT spending that is showing measurable returns.

In our Beef and Pork segments, we are increasing yield and revenue by developing more value-added products, such as season marinated and specialty trim cuts using portions that were previously undervalued. These offerings are reaching more consumers through our branded portfolio, and we're also enhancing operational efficiencies in these areas.

As anticipated, the Beef segment remains our only soft spot. Cattle supplies are at record lows due to drought, potential herd rebuilding, and the impact of New World screwworm in Mexico. These factors created market headwinds during the quarter. Despite these challenges, we are strengthening our fundamentals by prioritizing efficiency, reducing cost, and introducing innovative products. This positions us to emerge stronger in beef when market conditions improve.

Looking forward, we expect cattle supplies to remain tight as we move into 2026. During this period, chicken is likely to benefit most from changing consumer preferences, both at retail and in foodservice. 2026 presents further opportunities for our chicken business. Chicken is an affordable, high-quality protein and our innovative value-added offerings position us uniquely to serve both retail and foodservice customers amid high beef prices. While we are not satisfied with our current beef results, our diversified business model continues to build resilience and drive profitability across the company.

Overall, our financial position is strong with net leverage maintained at 2.1x, a direct result of deliberate actions and disciplined capital allocation to fortify our balance sheet. While consumers remain cautious and selective with their spending, we continue to expand our market share in both volume and dollars. Protein remains a top priority for shoppers. Despite rising prices, beef, pork and chicken are clear favorites with consumers viewing protein as an essential purchase and continuing to buy meat.

According to Nielsen data, food and beverage retail volume declined 1.5% over the 13 weeks ending in September. In contrast, our retail branded products grew by 2.4% in volume, significantly outperforming the broader sector. This growth was broad-based, highlighted by strong performances across several key brands. Hillshire Farm lunch meat increased by 10.3%. Hillshire Snacking grew by 12.5%. Tyson branded frozen value-added chicken rose by 8.7% and Jimmy Dean breakfast sausage advanced by 1.6%.

Our ongoing investments in innovation, wider distribution and effective marketing are driving growth and keeping us competitive, providing substantial opportunities for further progress. As more shoppers turn to the perimeter of the store, we are meeting their demand for fresh, high-quality options with Tyson branded fresh chicken volume growing 7.8% during this period. Our retail branded products now reach nearly 72% of U.S. households, a rate that exceeds both private label and other branded competitors.

Although private label sales are rising, their growth comes at the expense of other brands, not Tyson, as we continue to outpace the category in both volume and performance. We are

committed to engaging consumers wherever they are, leveraging our brand strength to thoughtfully expand into new markets and opportunities. Our recent launch of Tyson high-protein chicken cuts, each offering at least 30 grams of protein per serving, has achieved nationwide distribution.

This success confirms strong consumer demand for convenient protein packed options. Excitement for these products is evident across social media and at retail, reinforcing our strategy to connect our brands with consumers and deliver innovative ways to enjoy our protein-rich foods. Hillshire Farm, long trusted for lunch meat has now entered the freezer section with Stuffed Croissants and Ciabatta Deli Sandwiches. These new additions offer consumers even more convenient, delicious, and protein-rich meal solutions.

We're also seeing growing interest from Gen Z shoppers in the frozen aisle. Our latest offerings are designed to meet their demand for convenience, bold flavors, and high quality. Sales from our innovation pipeline has steadily increased over the past three years. Our innovation spans all brands and segments, ensuring we address both current and future consumer needs.

Tyson Foods is proud to lead the industry by developing products with simpler, recognizable ingredients, just like those found in your own kitchen pantry. We recently introduced our simpler product line, now available in stores nationwide. The preference for healthier options is clear. Last quarter, we announced that by year-end, we will remove high fructose corn syrup, sucralose, BHA, BHT and titanium dioxide from our branded products produced in the United States.

As a world-class food company and a recognized leader in protein, Tyson Foods is well positioned to meet the growing demand for high-quality protein. In the fourth quarter, we welcomed Devin Cole as our new Chief Operating Officer. Devin has over 30 years of experience in food industry leadership across both retail and foodservice. He has a proven track record working with our largest strategic customers worldwide and most recently led our chicken and international businesses to significant improvement last year.

Now I would like to invite Devin to share more about our segment performance.

Devin Cole

Thank you, Donnie. I'm excited to step into the role of Chief Operating Officer. Over the past two months, I have taken a deep dive into our operations across the entire portfolio. My promise to you, our shareholders is clear, we will streamline our business by reducing complexity and bureaucracy, challenging the status quo every step of the way. Our team is committed to delivering best-in-class performance and holding ourselves accountable to our customers' expectations.

Now let's review our fourth quarter segment performance. Prepared Foods delivered a strong quarter with sales up 3% versus last year or up 5.7%, excluding the effect of the product recall, primarily driven by higher pricing because of higher raw material cost recovery while continuing to enhance our product mix.

Adjusted operating income was also affected by the higher raw material cost and achieved a margin of 7.4% in the quarter. Despite the higher raw material costs, the full year adjusted operating income was up 1%, reflecting continued progress on our multiyear plan to enhance profitability in this business.

Our fill rates in Prepared Foods were the highest since 2013. This progress is a testament to the improved S&OP process and unlocked efficiencies in our plants and distribution systems. As Donnie noted, our retail businesses delivered the strongest volume and dollar sales growth of the year in Q4 according to Nielsen syndicated data, outpacing category performance in both measures.

This has enabled us to better serve our strategic customers with greater consistency and reliability. This momentum in 2025 lays the groundwork for an exciting 2026. We see significant opportunities ahead to drive growth and improve profits. Our conviction in the multiyear opportunity to expand profitability in Prepared Foods remains strong. In Chicken, we delivered another quarter of solid top line performance with sales up 3.8% year-over-year.

Volume contributed nearly all of the increase, including a notable contribution from value-added product sales, which also drove a favorable mix reflected in price. This is our fourth consecutive quarter of year-over-year volume growth, demonstrating continued demand for chicken. Quarterly adjusted operating income for the Chicken segment was \$457 million, an increase of 28%, building on a strong base in Q4 of last year. Our improved performance in chicken is a reflection of executing our strategy of operational excellence, combined with a focus on innovation and customer satisfaction.

We recognize that continued improvement is necessary and expected. Over the last year, we grew volume, net sales and adjusted operating income. We have taken the necessary steps to stabilize the margins of a substantial portion of our portfolio by providing a high level of service during the periods of market challenges for our strategic customers. Chicken is positioned to be the best value protein for consumers as overall food inflation remains high.

In our beef segment, we continue to focus on the controllable aspects of a challenging and dynamic market. Sales in beef increased primarily due to a higher average price per pound, reflecting ongoing healthy demand. We continue to believe we may be seeing the initial stages of heifer retention. Any retention is likely to further restrict cattle supply in the short run before seeing more supply as we work our way further through the cattle cycle a few years out.

Adjusted operating income declined versus the year ago period as higher cattle costs outpaced the higher sales from a strong cut out and resilient demand. Despite continued headwinds, we are focused on the pieces we can control like shifting further processing volumes back into our harvest facilities and tools to increase our ability to adapt to changing market dynamics. In pork adjusted operating income increased 70 basis points or 63%, fuelled by network optimization and operational efficiencies, leading to the strongest fourth quarter results since 2021.

Sales were down 1.7%, driven by a lower number of hogs harvested during the year. The lower volume was offset by higher prices. The access of raw material supply for our Prepared Foods division is a key part of our end-to-end pork strategy. We have made substantial progress in utilizing raw materials like pork bellies to support our branded Bacon, hams to supply lunch meat and trimmings to supply sausage.

We will continue to push for higher utilization as it will improve access, quality and landed cost of our raw materials. Overall, I am encouraged by the incremental steps we have taken through the year, but I'm confident that we have room to grow and improve across the operational and controllable aspects of our business in 2026.

Despite challenging market conditions, we are driven to focus on our strategic customers and consumers while delivering value to our shareholders. With protein remaining a clear winner in the mind of consumers, the diversity of our portfolio enables us to make investments by partnering with our strategic customers to drive category expansion.

With that, I will turn it over to Curt to walk through our financial results and outlook in more detail.

Curt Calaway

Thanks, Devin. For the fourth quarter, total company sales grew 4.8% to \$13.9 billion compared to the prior year, led by beef with solid contributions from Pork, Chicken and Prepared Foods, reflecting the healthy demand environment for protein. For comparative purposes, the sales increase was calculated excluding the effect of a \$355 million legal contingency reserve that was recognized in the quarter.

Full year 2025 sales were \$54.4 billion, an increase of 3.3% compared to prior year, excluding the effect of legal contingency reserves recognized during the year. Q4 adjusted operating income was \$608 million, up 19% compared to prior year, driven by growth in chicken, international and pork, which more than offset the decline in beef and Prepared Foods. For the full year, adjusted operating income was \$2.3 billion, an increase of 26%.

Once again, the increase was driven by the record performance in chicken. Adjusted earnings per share for the quarter were \$1.15, up 25% versus last year and full year adjusted EPS was \$4.12, up 33% from the prior year. Our multi-protein, multichannel portfolio, combined with our team's focus on operational execution in a dynamic macro environment continues to deliver results.

Turning to our financial position. Our approach to capital allocation remains disciplined, deliberate, and forward-looking. We are focused on maintaining financial strength, investing in the business, and returning cash to shareholders. Free cash flow is critical to us, and I'm pleased with how cash has trended. Full year operating cash flow was \$2.2 billion, and capital expenditures were \$978 million, resulting in free cash flow of \$1.2 billion, well ahead of dividends, which were \$697 million.

We ended the year with \$3.7 billion in liquidity and net leverage at 2.1x, an improvement of 0.5 turn compared to last year. If you step back and look at our balance sheet and leverage over the last few years, we've made immense progress in strengthening our foundation. With leverage continuing to decline and cash flow remaining strong, we continued share repurchases of \$154 million during the quarter and we returned \$327 million to shareholders through a combination of dividends and repurchases.

And for the year, we returned a total of \$893 million. While dividends remain our primary way of returning cash to shareholders. At current Tyson stock valuations, we believe share repurchases represent an attractive opportunity. Our balance sheet remains healthy as we prioritize financial strength, our investment-grade credit rating, and cash management to drive long-term shareholder value.

Let's take a moment to review our outlook for 2026. As our accounting cycle results in a 53-week year in fiscal 2026 as compared to a 52-week year in 2025, the 2026 outlook is based on a comparative 52-week year. We anticipate full year sales to be up 2% to 4% year-over-year. We expect the range for total company adjusted operating income to be between \$2.1 billion to

\$2.3 billion. We anticipate interest expense of approximately \$390 million and a tax rate of around 25%.

We remain disciplined in managing cash with CapEx expected to be \$700 million to \$1 billion and free cash flow in the range of \$800 million to \$1.3 billion. Now to provide more color on our segment outlook. In Prepared Foods, we expect adjusted operating income between \$950 million and \$1.05 billion. We expect an improved level of performance next year as a result of improved operational discipline and strategic investment in our categories.

We anticipate our adjusted operating income for chicken to be between \$1.25 billion and \$1.5 billion. We believe chicken will be the primary beneficiary of higher beef costs in the upcoming year. We also expect our operational execution to continue to perform at a high level. Based on the continuation of current variables of tight cattle supply conditions and the potential for heifer retention, we expect adjusted operating income in beef to be a loss between \$600 million and \$400 million.

We anticipate adjusted operating income for pork to be \$150 million to \$250 million based on our ample supply of hogs and with continued emphasis on the operational metrics of our business. Our international business has performed well in 2025 by managing controllable costs, maximizing efficiencies, and lowering conversion costs. We expect adjusted operating income in international other to be \$100 million to \$150 million. Overall, I'm confident that 2026 will be another strong year for our company. That covers our segment performance, financial highlights, and outlook for 2026.

Now I will turn the call over to Donnie.

Donnie King

Thanks, Curt. In 2025, our team delivered strong results despite navigating a dynamic and challenging market landscape. These achievements are a direct result of our collective dedication, and we look forward to building on this momentum as we move into 2026. Our diverse portfolio, commitment to innovation, operational excellence and robust balance sheet empower us to allocate capital strategically and reinforce our leadership in the industry.

We remain focused on meeting growing global demand for protein while delivering value to our customers, consumers, and shareholders. I would especially like to thank our team members for all you do. Your unwavering dedication and hard work are the driving force behind our progress, propelling us toward even greater success and solidifying our reputation as a world-class food company and a leader in protein. With that, I'll turn things back over to Jon as we begin the Q&A session.

Jon Kathol

Thanks, Donnie. We will now move forward to your questions. Please recall that our cautions on forward-looking statements and non-GAAP measures apply to both our prepared remarks and the following Q&A. Operator, please provide the Q&A instructions.

QUESTION AND ANSWER

Operator

[Operator Instructions] The first question comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer

Yes. Good morning and thanks for taking my question. Donnie, Devin and Curt, congrats on a good finish for '25. Picking up on the guidance on my first question, really on chicken. '25, you had a probably better year than even expected at the beginning. And now looking at the outlook looks very strong, the 1.25 billion to 1.5 billion. Can you give us maybe your assumptions for that piece of the guidance as to the high end, the low end, that would be great? Thank you.

Donnie King

Good morning, Ben and thank you for the question. In 2025, we did have a great year in chicken. Let me digress a little bit and tell you that what we saw in '25 is a result of what I would call setting the table over the past three years in our chicken business. You may remember, and I'm certain others will, that we had our share of issues with genetics and hatch and the capacity issues as we worked over the past three years.

But we're now starting to see the fruit of our labor. But if I think about 2026 and some of the assumptions that we made in putting our guidance out there, we expect the operating conditions in '26 to be similar to those in FY25. In short, we expect it to be a constructive environment for us. USDA projects chicken production to increase approximately 1% in FY26. We don't see a runaway chicken supply.

In fact, I would caution against using September's numbers and obviously, the commodity price impacts of that as you do your model. But the 6% was the result of perfect growing conditions and environment and that has now returned to normal. And so we see a constructive environment from that standpoint. In terms of grain, we see stable grains. You can -- we're in line with forward futures markets.

And then the confidence that we have in our chicken business is based on execution. And for us, execution across every one of our businesses is critical to us. And so if you look at those individual components of execution in our supply chain, we believe they are sustainable. For example, better yields. We're seeing some incredible numbers out of that capacity utilization. I talked earlier about some of the things we're growing the business, but at the same time, we've got a great footprint underneath us at this point.

Labor utilization is really good. We have ample labor, productive labor. And our live performance is kind of a standout for us. It has been all year, but it was particularly in the Q4, and we're seeing some performance out of live that we've not seen in many years. And so we've made tremendous strides in operational improvements from live operations through the plant with room to continue to improve our performance. We're all aligned against -- there is more to go do.

And we've seen commodity chicken prices move downward, just like you have and mostly because of the bird weight corrections that I mentioned in September of this year. We're somewhat insulated in our business, but we're not immune to commodity markets. And we also continue to evolve our commercial relationships with our strategic customers to build long-term win-win partnerships.

This allows us to focus on jointly growing the categories and stabilizing our earnings and the collective earnings of us and our customers. Further evidence of that is in our Q4, our branded fresh chicken business in retail was up 7.8% and our frozen value-added chicken was up 8.7%. These are volume numbers. And so we had higher volume and a better mix. We finished '25

with momentum in chicken and we've seen that performance carry through in the start of '26. And we expect '26 to be another great year in chicken.

Ben Theurer

Okay. Perfect. Very clear. Thanks for that, Donnie. And then second, real quick on Prepared Foods. It looks like the finish was a little bit softer than expected. So first, what drove that, is it input costs, maybe poor beef pricing and how should we really think as we move into '26 on the midpoint, give or take, \$1 billion outlook and the expected growth here? Thank you.

Devin Cole

Yes. Thanks, Ben. Good morning. Let me first say that the fundamentals of our Prepared Foods business are very good. We did have a much better overall performance in FY25 and that was really driven by growing distribution, optimizing our operations, and winning innovation with strategic customers. In fact, we are winning with consumers, and we did grow both net sales and operating income by about 1% in FY25.

The volume gap to last year has continued to narrow each quarter. So we're seeing good momentum there. And as mentioned, our volume and dollar share did grow at retail for the first time in two and half years. The miss that you referenced, it was, in fact, driven by a rapid rise in commodity costs and our pricing lags just didn't fully have time for those to flow through in the quarter.

For the third quarter, we had \$135 million in commodity cost pressure and we had 344, I would point out for the whole year, so not insignificant. The operational excellence that I mentioned, it is occurring inside of all of our plants and it did really drive substantial value this year. And some of that was partially covered up by those higher raw material costs. We continue to have very good fill rates, the best since 2013. And so a lot of good things to talk about in this business as we go into FY26.

As we see those raw materials stabilize, we do expect to see volume growth, market share growth and that's really driven by our world-class innovation pipeline, continuing work with the operational excellence that I mentioned and our customer partnerships. We will drive top and bottom line growth with our strategic customers. And I would point out that's not just in retail with much of the brand work that we've talked about.

We're also seeing strength and increased distribution with foodservice. So what we're doing is working. We're pleased with the resilience of this business this past year, but we also acknowledge that there's more work to be done. I am confident that we have the right products, the right team, the right customer relationships to achieve the metrics that we've laid out.

Ben Theurer

Perfect. Thank you very much, Devin.

Devin Cole

Thank you.

Operator

The next question comes from Leah Jordan with Goldman Sachs. Please go ahead.

Leah Jordan

Thank you. Good morning. Thanks for all the detail today and great job on the quarter. I just wanted to switch over to beef. It came in a bit better than we were expecting in the quarter, but you're still guiding for a pretty challenging environment in '26, which makes a ton of sense, right, with her rebuilding likely underway.

I just looking at the guide for next year, maybe you could provide more detail on how you're thinking about the underlying cattle supply and costs as we move throughout the year to frame that view. And then I know you've made a lot of improvements on yields and the like, but what other opportunities do you have to mitigate the cost pressures in this business?

Donnie King

Sure. Thanks for the question. So let me get into that. In terms of heifer retention, this is obviously something we've talked about for a while, but there are potential signs that there is heifer retention. What is a little bit different as we have a little bit better picture is, is we see regional disparity. For example, out West, we're not seeing meaningful -- anything meaningful. In the South, nothing there.

But in the North, Upper Midwest, we're seeing some retention. So if I look at what data or what we see, it's a lower percentage of heifers either being harvested in feed yards and then fewer feeder calves. Heifer numbers at harvest will need to remain lower for us to be able to say that heifer retention is sustainable. And remember, more heifer retention implies less beef in the near term.

But to the second part of your question, so what are we doing about that? So with herd being rebuilding, which we're all looking for means supply of market-ready cattle will fall before it increases in future years. We continue at Tyson to focus on the controllables and optimizing our business. And kind of the macro question on the table is this, the continuing challenge of inadequate cattle availability that has been further impacted by cattle inflows from Mexico associated with border closure related to New World screwworm.

Our volume was down 8.4% for the quarter and 1.9% for the full year. So certainly having an impact. Even heavier animals, they've helped, but they've only partially offset the lack of cattle availability. In our guidance, the negative 600 to negative 400 is what we see relative to the market presently.

Leah Jordan

That's very helpful. Thank you for all the details. For my follow-up, I wanted to ask about the CapEx guidance. The range for next year seems somewhat wide and is notably lower than the typical level you guys do. So just maybe you could talk about the main buckets of what projects you're planning for next year. What are the variables driving that range? Is it anything timing related or has anything changed in how you're thinking about capital allocation overall?

Donnie King

Thanks, Leah. Maybe to start with just a reminder on our capital allocation approach. And I made a comment this morning around that it remains very disciplined, deliberate, but also forward-looking. We're focused on maintaining our financial strength, certainly investing in the business, as you asked the question on, but also returning cash to shareholders. And acknowledge the range that we provided this morning for CapEx for '26 is \$700 million to \$1 billion.

I'll hurry on to remind everyone that across the last five years; we've spent just over \$7 billion in CapEx. We've invested heavily across our network and that included a lot of capacity expansion during that time period. And where we sit today, we have the capacity to grow inside our existing network.

Our range that we shared today, acknowledging it's 300 wide is really not that different than what we've shared over the last few years relative to a range as we start the year. But that range is really going to -- is reflective of the pacing of the spend of our current projects, but also the timing of new projects that we'll launch in 2026. But the range does include both our maintenance spend as well as profit improvement projects that we'll execute across the year.

Leah Jordan

Great. Thank you.

Operator

The next question comes from Tom Palmer with JPMorgan. Please go ahead.

Tom Palmer

Good morning. I wanted to just follow up on the chicken commentary. You noted that you were insulated, but not immune from lower prices and we did see the lower prices in September at an industry level, especially jumbo cuts. I guess I'm trying to think through to what extent this flowed through in 4Q, and you still put up those results versus maybe there's some timing considerations and maybe more of a call out to start out the year? Thanks.

Donnie King

Thanks for the question. I will tell you that, I mean, we obviously considered commodity markets in giving our guidance, but the 1.25 billion to 1.5 billion, I think is a good starting point for us right now. We've said that we think '26 will be very similar to 2025. I think that's still true. I think that what you're seeing in terms of pricing that has created a concern, I referenced earlier the 6% increase in supply in September. I think it's skewing a lot of information. And some of the pricing you're seeing are very simply is just spot market or excess that was taking place at that point.

I would remind you that demand is still strong, and I believe that will continue in '26. This is a data point for you. Breast meat pricing is the third highest in the last decade, and we have stable grains. So it's a pretty good environment to be in. 2026 is looking to be another good year for us. And then if you look at -- in terms of the insulated and not immune.

If you look at where we're growing in the value-added and the retail and foodservice, that value-added mix gives us the opportunity to put our -- the number one brand of chicken on the product. And so it provides some insulation. The fact that it's value-added provides some insulation from commodity markets. So we believe our mix in our portfolio positions us well to be very successful in 2026.

Tom Palmer

Okay. Thank you for that. In Prepared Foods last year, at the start of the year, you noted maybe a little bit less seasonal than you might see in a typical year in terms of first half or second half. Maybe an update just on how you're thinking about 2026? Thanks.

Devin Cole

Yes. Thank you. Yes, you're right. FY25, I would tell you was a bit out of balance from historical norms and that really was due to the raw material pressure and somewhat unseasonality that we saw there. As we think about what we can determine from FY26 currently and what the forecast look like, we do see FY26 being more balanced in that regard.

Tom Palmer

And so we might expect a pretty big bounce back here just to start out the year to clarify versus what we saw in 4Q?

Curt Calaway

We don't -- thanks. Obviously, we don't give quarterly guidance. But I think we've talked historically maybe slightly better performance in the first half. We shared the message last year being '25 that it would be more balanced given the operational improvements as they built throughout the year. And I go back to Devin's comments; I think this will revert closer to a normal cadence but certainly acknowledging we did have the run-up in raw material as we shared earlier that impacted Q4. And that -- there's some level of that, that was still in inventory as we finished the year as well.

Tom Palmer

Okay. Thank you.

Devin Cole

Thank you.

Operator

The next question comes from Alexia Howard with Bernstein. Please go ahead.

Alexia Howard

Good morning, everyone. Can I start with just a broader question on the key uncertainties for fiscal '26? We know the consumer is struggling a bit in the U.S. commodities are all over the place, tariffs, I think, are less of an issue for you. But if you had to sort of prioritize the top two or three things that could go positively or negatively versus your forecast, what would those be?

Donnie King

Kristina, why don't you take that?

Kristina Lambert

Yes, hi, Alexia. Thank you for the question. As we think about the consumer, we definitely are seeing a continued divergence in incomes with higher incomes continuing to drive growth and others reallocating some of their non-food dollars to food categories.

So we do anticipate demand for protein to continue, and we are really excited about the opportunity for consumers with our chicken being a preferred choice for value and for convenience. If we look at our extensive product portfolio, we have products that do cater to everyone, whether they're shopping in retail or our foodservice channels, ensuring that we can meet those consumer needs wherever they may be.

And as we remain positive, one of those reasons would be over the past year, 72% of households have purchased a Tyson Foods branded product, which helps demonstrate our strong market presence and our consumer trust. Additionally, we've increased our household

penetration with younger consumers under the age of 35, which is a testament really to our ability to resonate with those new demographics.

As Donnie talked about, we grew market share in our Tyson retail value-added poultry and our fresh businesses. We also grew our market share with our prepared on a volume basis with Hillshire lunch meats really being a standout with a 10% volume growth. So I'm confident that Tyson Foods is excellently positioned for growth today and into the future.

Alexia Howard

Thank you. And as a follow-up, it sounds as though you're fairly confident that the first quarter results in Prepared Foods will come through reasonably well. Are you seeing any impact from the delay and disruption in the SNAP benefit payouts as a result of the government shutdown? Or is it too early to tell on that front? Thank you. And I'll pass it on.

Kristina Lambert

Yes. Thanks, Alexia. I'll continue on that. I think it's an evolving situation on the funding for the Supplemental Nutrition Assistance Program. So we are closely monitoring it. We do see consumer spending patterns, again, changing from non-food to more food categories.

But we feel resilient and well positioned to navigate those challenges probably for three real reasons: one being our diverse product portfolio. We have a wide range of product offerings at different budget levels.

And this allows us to meet the consumer needs, whether they're price sensitive or whether they're looking for premium offerings and really do believe that our chicken and our prepared products are both going to be able to provide affordable and nutritious options for the families.

The second reason is our brand trust and loyalty. We have 3 of the top 10 brands in packaged protein with our Tyson, Jimmy Dean and Hillshire Farm. And then third, really our market adaptability. We're really committed to driving volume growth.

And so watching the challenging -- or changing market conditions, it's one of our core strengths. And so we actively watch what consumers are buying, their behaviors and adjusting our marketing and promotional strategies in order to continue to drive our volume growth.

So again, I feel really optimistic with our strategic approach, our diverse product portfolio and our strong brand loyalty that will help us continue to grow.

Alexia Howard

Great. Thank you. I'll pass it on.

Operator

The next question comes from Heather Jones with Heather Jones Research. Please go ahead.

Heather Jones

Good morning. Congratulations on the quarter, and thanks for taking my questions. I want to start out with beef, and I understand the normal seasonality of that business. But given the volatility that we've -- I mean, pretty extreme volatility that we've seen in the cattle futures recently, I was wondering if we should think about the seasonality of Q1 any differently than normal? Because I think it was Q1 of '24 had some impact because there was volatility in the curve. So just curious if you could help us think about that.

Donnie King

Sure. And thanks for the question. We're seeing good retail demand here in Q1 of '26. I think that from an operational perspective, we continue to perform well. We're -- if you look at things like yield, if you look at how we're diversifying the mix into more value-added, and we have a pretty good supply right now in regions from a cattle perspective.

But, you know, we think '26, it's shaping up for us, very much in line with what we built into our guidance. We don't know -- I mean, there's obviously -- we should expect volatility. I think that's going to be the order of the day as it relates to beef.

But we have considered the current future cattle costs and the estimated pricing while expecting that volatility. And could it be worse? I don't know. If we could -- Mexico and border closure and New World screwworm and the impact of that, I mean, that's pretty significant for us, particularly in one of our plants in the region. And so we're just -- we've given you the best guidance that we know how to give you relative to those dynamics that we're dealing with presently.

Heather Jones

Okay. And then I wanted to, had a clarifying question on chicken. So Donnie, it sounds like based on your comments that you all's guidance assumes more than normal seasonal improvement in pricing. You found September to be an aberration. So as we're thinking about '26, you're expecting price appreciation from current levels higher than just normal seasonal. Am I understanding your commentary correctly?

Donnie King

So there's really about 3 or 4 points relative to that, but your assumptions are generally correct. I think the first one is that chicken will be very much in favor in terms of protein. It's the most affordable protein on the market, and consumers are favoring that. And so that's one thing.

The aberration, as we talked about it in September, that is, I think, a point in time. I think there are physical limitations to -- from an industry perspective in terms of increasing supply. And I've seen some headlines that talk about runaway supply. I don't see that at all.

In fact, my biggest concern today is with the supply of chicken that we have is the demand that we're going to have for chicken, are we going to be tight? And could we see a little bit better market. But overall, what gives me confidence is our level of execution from one end of the chicken supply chain to the other.

I've been doing this a long, long time. I've not seen us, but a few times be -- operate at this level as One Team, One Tyson across our chicken business. And a lot of people deserve credit for that. And so think of my confidence, you know, being from the execution of the business and never gets old.

Heather Jones

Thank you so much.

Donnie King

Thank you.

Operator

The next question comes from Pooran Sharma with Stephens Inc. Please go ahead.

Pooran Sharma

Good morning. Thanks for the question and congrats on posting strong results there. Donnie, I wanted to start out by asking about something you said on the call. You said you've taken steps to stabilize the margin -- stabilize margins on a substantial portion of the portfolio. Donnie, I think in the past, you've mentioned just for chicken alone, we've seen somewhere upwards of a \$500 million to \$700 million self-improvement.

Was just wondering if you could give us an updated view on chicken? And also, if you're able to -- would you be able to provide a view across the rest of the businesses just because of the work you've done in Prepared Foods and in Pork as well?

Donnie King

Sure. I think let me start with a few things here. When we were sitting here a year ago talking about '25, we said or made a few commitments, and I would point this out. We did exactly what we said we were going to do in the year. We said we would continue to shift our mix from core protein to more branded and value-added. We did that.

We said we were going to increase household penetration in branded and value-added, and we were going to engage with the younger consumers. We have done that. We told you protein would be viewed as essential by consumers, and it is.

We improved our returns on invested capital and creating shareholder value. We've done that. We told you we would execute with excellence in all that we do, and we continue to do that, and you will see more and more of that coming as we move through '26. In Q1, we're off to a great start across all the businesses. They're very much in line with our expectations and outlook. So, we feel very good about that.

In terms of some program, I would tell you that the expectation, whether it's chicken, beef, pork, or Prepared Foods or international. The expectation is you be the very best regardless of the protein at everything you do from one end of that supply chain to the other. And also, that makes us from a corporate perspective, manage our costs so that what gets allocated to a business is more in line and realistic -- is more in line with what a competitor of ours in that space would be.

So there's a lot of pressure put on the spend side of the business with a lot of work done relative to determining whether every activity, whether it adds value or it creates waste. And if it creates waste, we stop it. If it's something that a shareholder, a customer or a consumer isn't willing to pay for, we're stopping doing that. And so that's kind of my view.

I don't have a number to give you, but I would tell you, using chicken, which was a little bit of what you talked about, but it could apply to the rest of the proteins is we believe there to be significant upside and improvement across the landscape.

Devin Cole

Yes. Maybe I'll just make a couple of comments relative to your -- part of your question with Prepared Foods and Pork. I would just add on to what Donnie said. What he's talking about is really a multiyear cultural shift that we've been on the journey of.

And it's not just in the facilities. It's in everything that we do, whether that be in our investments regarding our marketing spend, whether that be our sales, sales support or even things that we do here at the corporate office. It's about finding efficiency in everything.

But to the point of prepared, we talked a good bit about that. Those plants do operate on a system of standards. And not only does it help offset the inflationary factors, but it also provides us additional capacity without having to spend CapEx. We did see achievements in that area that exceeded our goals in FY '25 and certainly see a pathway to have that progress continue in FY '26.

And maybe just touching on pork because we don't talk a lot about that. There has been exceptional improvement in that business in this year and see that continuing. They did improve their margins by 70 basis points, and they did that through improved efficiencies and yield.

They are capturing more revenue per animal. And a lot of that has to do with the work that they're doing around special trimming, marinating, just typically adding value for our customers. But a data point here is their cost per head in FY '25 was basically the same as FY '24 on fewer head. So very proud of the work that has been accomplished in the Pork group and do continue to see that momentum in FY '26.

Pooran Sharma

Great. Appreciate the color there, Devin and Donnie. Just for my follow-up, I wanted to maybe understand heifer retention a little bit better. You gave us some great commentary on the call. Donnie, I think you mentioned retention happening in the North and the Midwest versus kind of in the West and the South, are not quite seeing it there.

I was wondering if you could maybe share some of the reasons as to here and why? Is it like drought conditions better in those regions? Or are the economics better in those regions? Any color there would be appreciated.

Donnie King

Well, thanks for the question. I think, I would say that the situation we're in was largely created because of drought conditions. And there were areas that were more harmed than others. And so in terms of this, and when I talk about heifer retention, it sounds like you know all the different components that are required to actually start rebuilding the herd and the impacts of that.

But that lower percent of heifers being harvested, feed yards and fewer feeder calves, I mean we're looking at all that constantly. And so -- but I think what makes this challenging to do is the data we get to see relative to what's actually going on because somebody could hold a heifer back for a short period of time, they may be taking advantage, for example, of cheaper corn, and they're going to feed that and put some weight on the animal and then they may ultimately take it to harvest.

So it's not -- there's a little bit of flexibility around that. And rightfully so, that cattle rancher, they're trying to maximize their earnings through this time period in these market conditions and certainly understand and appreciate that. But they're making those business decisions based on what's best for them. And we're just trying to react to what that looks like.

Pooran Sharma

Great. Thanks again for the color.

Donnie King

Thank you.

Operator

The next question comes from Peter Galbo with Bank of America. Please go ahead.

Peter Galbo

Hey, good morning, Donnie, Curt, Devin, and Jon, it feels like Eagles reunion tour out here. So excited to have you guys all back together. Wanted to ask on chicken, and I know there's been a lot of discussion.

But Curt, maybe you could just help us a little bit with the phasing of profitability over the course of the year. I know you don't want to give specific quarterly guidance. I am asking for it, but I'll leave it to your discretion in terms of how you want to kind of help us adjust the profit expectations for the year.

Curt Calaway

Yes. Thanks, Pete. Certainly, as I said earlier, don't provide quarterly guidance. I think certainly, as Donnie had illustrated earlier, there'll be a little bit of volatility as we work our way through beef. But otherwise, I think kind of normal seasonality would play its way through each of the individual segments.

Peter Galbo

Okay. And then I wanted to ask on Prepared Foods and maybe this is a bit too granular, but on lunch meat specifically, there's been, I guess, a lot of different signals out of the different market participants, some on taking price, some on being more competitive on pricing in terms of promotion. It seems like there's, I guess, a lot of different strategies that are going on. And again, it seems to be impacting a little bit the profitability?

So I just -- I wanted to understand what you're seeing in the market specifically. I know your results kind of speak for themselves, but whether the competitive activity out there in deli specifically has been, I guess, rational is probably the word I would use in your view or if there's some other strategies that are going on that maybe are upsetting dynamics in the category? Thanks very much.

Devin Cole

Yes. Thanks for that. This is Devin. Listen, I'll just -- it's worth repeating, and I know you saw it in the notes, and we've said it, but we did see strong lunch meat growth in the quarter, 10.3%. In fact, we saw some pretty healthy indications across several of our categories that would tell you that we're -- we have what today is a winning combination, both with the price that we have in the marketplace, but also with the targeted MAT spending with our strategic customers.

I would say today, we have more visibility from data that we have in software investments that we've made in terms of what's working in real time, how many adjustments that we need to make if we do see changes with the consumer. But we are very focused on increasing our distribution and also making sure that we not only have the right value for the consumer, but also the right products, and that's what makes our innovation pipeline so important.

10% share increase is not insignificant in this dynamic area. But I would just point out too, you've heard us talk a lot about this, but a large portion of our business is pass-through. It's got lags relative to our portfolio that's on a price list. When we do face sustained market-based input

cost pressure, we will take price action as needed. And that's really just to make sure that we can continue to do those investments in our business.

Peter Galbo

Sorry, Devin, can you just expand a little bit, though, on competitive dynamics in the category? I think that would be helpful. Thank you.

Kristina Lambert

Hi. This is Kristina. I'll speak up just a little bit on the distribution growth, as Devin was talking about. In Q4, almost every one of our categories, we saw distribution increases. And we also had increases in our MAT spending from first half to second half and really getting to those targeted promotional spends, reaching the consumer where they're at, whether they're shopping online or if they're shopping within the store.

So we feel pretty confident about our continued success, and we've been able to leverage platforms to get those insights real time and adjust and pivot. And so our commitment to growing is demonstrated by that continued investment.

Operator

The next question comes from Guilherme Palhares with Santander. Please go ahead.

Guilherme Palhares

Good morning, everyone. Thank you for taking the question. I just want some color on the working capital. If you could just share bit of the details on the free cash guidance for the next year. So it seems that you guys have some cash burn expected. So, if you could just give some color to us in terms of what are the lines that are impacting the most? And how are you thinking about 2026 when it comes to working capital? Thank you.

Donnie King

Thanks. So our free cash flow for the year '25, very proud of finishing at \$1.2 billion. And I think part of your question there was around the free cash flow expectations and working capital and a couple of other elements. We did guide this morning to a free cash flow range of \$800 million to \$1.3 billion for '26. That's recognizing certainly the range of operating income that we shared this morning in addition to the range of capex.

Obviously, we don't share a specific working capital expectation throughout the year, but we did provide expectation relative to the sales growth. So there likely is some inflationary move on working capital as we work our way through the year, but, you know, would certainly indicate a free cash flow that exceeds our dividend up to nearly 2x our dividend rate for '26.

Guilherme Palhares

Great. And just one follow-up here on the chicken business. If you could just remember us in terms of the exposure to the commodity market or if you could provide any color in terms of small chicken versus big everything that you could give us in terms of color to the exposure to that spot of market would be appreciated?

Donnie King

So if I understand your question right, it's our market exposure to small bird versus big bird. Well, I would start with we obviously participate in both the small bird and big bird program. We have value-added products in both big and small bird. But in both cases, what we tried to do is

to create to align with strategic customers and create these win-win relationships that grow our business and grow our customers business.

And we spend time doing that as opposed to arguing about what the price is or what the volume is going to be. Both of us collectively spend our time on growing the collective business for both. But -- in terms of big bird, small bird, I don't think I would want to tell you what percentage of our share of that is presently.

But I would point out that our value-added business and when I say value-added, I'm not just talking about chicken that is breaching on it or that could be fully cooked, there could be value-added fresh chicken, and we participate in all of that. But in this -- in the year, we grew our value-added business 2x what we did commodity or the average of the commodity or the average of the segment, I should say. And so we feel very good about that. We told you we were going to do that in '24 and that we were going to do it in '25. I'm telling you in '26, we'll continue to do that.

Guilherme Palhares

Thank you.

Donnie King

Thank you.

Operator

The next question comes from Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik

Hi, good morning. Thanks for taking the question. I wanted to go back to specifically to the fourth quarter chicken performance. And you talked about the growth on a strong quarter last year. If I look at relative performance to the industry even adjusted for your price lags, it seems like that took a step up as well.

And I was trying to kind of decipher exactly or more precisely what drove that. You talked about live ops, but you've been talking about that all year. You talked about lower feed costs as well in some of the value-add components. So I guess, how do you think about what was the biggest driver there? Did you see a step function in your operational performance internally in the quarter? Any color around that would be great?

Donnie King

Sure. Andrew, good morning. There's a lot of things that I could talk to you about relative to that. And I mentioned earlier that -- and you well know this, that for about three years now, we've been working on our chicken business and really doing what is necessary to improve the performance. We have one goal here. It's very simple in our chicken business is to be the best chicken company in America, period.

Anything that doesn't deliver that is -- or doesn't work toward that end, we obviously look at and see whether we need to be doing that. But it's better yield, it's better live performance. And in that live performance, you'll remember we had our share of issues with genetics as well. Even our old genetics, we have new genetics, but we have older genetics that are actually performing at what I would call historical top-end performance.

And then we have an answer for big bird genetics that is flowing through the pipeline today and we feel good about that as well. Capacity utilization continues to improve for us as a company and we made some really, really difficult decisions two years ago, 18 months ago around that. And then from a cost improvement, we're attacking every element of this from a cost, from a spend, from a non-value-added activity perspective. And then even to looking at what the allocation from corporate is into an individual business and addressing those things. So we're leaving those stone unturned with a clear objective, Andrew, of being the best chicken company in America.

Andrew Strelzik

Okay. That's helpful. And if I could just squeeze one more in on beef. You talked about a lot of the moving pieces for '26, screwworm and heifer retention and demand and all the other things. The one thing I didn't hear you talk about was imports and that's been obviously topical in the news. How have you factored potential beef imports into the U.S. into your outlook and how would you think about that impacting your business? Thanks.

Donnie King

Well, we've obviously had imports into our beef business and that looks more like box of lean. But those numbers, as you think about that exports are down about 10% for us, Andrew, imports are up about 20%. Australia is a big market for that and we're talking boneless beef and most of which ends up in our grinds. And so in this environment, the consumer, yes, they're trading around in proteins a little bit. But even within beef, you're seeing some trade from muscle cuts into grinds and the grind demand is very strong.

Andrew Strelzik

Great. Thank you very much.

Donnie King

Thank you.

Conclusion

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Donnie King for any closing remarks.

Donnie King

Thank you for your time and continued interest in Tyson Foods. We look forward to sharing our progress with you next quarter.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.